



JAMES A. NOYES, Director

# COUNTY OF LOS ANGELES

## DEPARTMENT OF PUBLIC WORKS

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June 6, 2002

IN REPLY PLEASE  
REFER TO FILE: **FI-4**

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL OF ASSIGNMENT, AMENDMENT, AND SUBCONTRACTING OF  
AGREEMENT FOR FINANCIAL ACCOUNTING SYSTEM (FAS) FOR PUBLIC WORKS  
ALL SUPERVISORIAL DISTRICTS  
3 VOTES**

**CIO RECOMMENDATION: APPROVE ( ) APPROVE WITH MODIFICATION ( )  
DISAPPROVE ( )**

**IT IS RECOMMENDED THAT YOUR BOARD:**

1. Consent to the assignment of the Agreement for Financial Accounting System - Systems Development and Support for the Department of Public Works (the FAS Agreement) from KPMG Peat Marwick, LLP (KPMG Peat Marwick) to KPMG Consulting, Inc. (KPMG Consulting).
2. Approve the Continuing Liability and Consent Agreement between the County of Los Angeles, KPMG Peat Marwick and KPMG Consulting providing for ongoing liability of KPMG Consulting and KPMG Peat Marwick under the FAS Agreement, notwithstanding modifications, subcontracts, or assignments of the Agreement.
3. Approve an Amendment to the FAS Agreement to provide expanded maintenance services and optional support services for a total not to exceed amount of \$2,424,250.
4. Consent to the enclosed Subcontracting Agreement between the County of Los Angeles and KPMG Consulting, allowing Tier Technologies, Inc. (Tier) to subcontract maintenance and other services under the FAS Agreement.

5. Delegate to the Director of Public Works the authority to approve the assignment of the FAS Agreement to Tier one year after final project acceptance.
6. Instruct the Chairman of the Board to sign the Continuing Liability and Consent Agreement and the Amendment to the FAS Agreement to provide expanded maintenance services and optional support services.

#### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

In August 1997, the FAS Agreement was awarded by the Board to KPMG Peat Marwick to implement an integrated financial accounting system for the Department of Public Works at a cost of \$3,959,750, plus \$1,080,000 for ten years of basic maintenance support for the baseline software. In June 1998, an additional \$200,000 for programming assistance was approved by the Board.

FAS core functionality was implemented on July 1, 1999, and the system has functioned successfully since that time as illustrated by two successful fiscal year-end closings and numerous internal and external audits that have been absent of any material adverse findings. Final project acceptance is pending the completion of three process enhancing tasks and is targeted for later this year. Final acceptance has been delayed because of the need to modify the software to conform system response time to contractual requirements and because additional time was needed to incorporate into the software certain functionality and process improvements. The initial term of the extended warranty and support services remains in effect until 12 months after final project acceptance.

Assignment to KPMG Consulting and the Continuing Liability and Consent Agreement - Last year, KPMG Peat Marwick spun-off its consulting practice, which included the unit responsible for the FAS software, to a new public company called KPMG Consulting. Therefore, KPMG Peat Marwick requested that the County assign the FAS Agreement to KPMG Consulting. Public Works carefully considered KPMG Peat Marwick's request. Public Works did not object to the assignment because the same personnel would continue to be assigned to the FAS Agreement and KPMG Peat Marwick agreed to remain fully responsible and liable to the County for the success of the project. KPMG Consulting, based in McLean, Virginia, is one of the world's largest consulting and business systems integration companies with approximately \$2.8 billion in annual revenues.

The Director of Public Works signed the assignment Agreement, under the mistaken understanding that it was within his delegated authority. In connection with preparing the other items addressed in this Board letter for approval by the Board, the Director determined the assignment to KPMG Consulting requires consent of the Board.

In order to assure the County that the assignment will not adversely impact the success of the project, KPMG Peat Marwick and KPMG Consulting have agreed to sign the Continuing Liability and Consent Agreement. This agreement obligates KPMG Peat Marwick, KPMG Consulting and their successors to remain jointly and severally responsible for problems that might arise with the FAS.

Amendment to FAS Agreement for Expanded Maintenance and Optional Support Services - Public Works also recommends entering into an amended FAS Agreement to provide expanded maintenance services and as-needed optional support services. The FAS Agreement currently provides software maintenance and support for only the baseline software. This baseline software maintenance and support costs \$108,000 per year through December 31, 2009, and provides hotline support, correction of bugs, documentation updates, and new releases of baseline software. It does not provide for maintenance and support for existing and future Public Works site-specific modifications or integration of the site-specific modifications for every new release.

Public Works has a large and complex financial environment, including 130 operating funds and 90,000 active jobs. The volume of transactions is approximately 15 million per year, with 1,200 system users spread over 50 locations. Additionally, FAS must interface with and conform to the conventions of the Countywide Accounting and Purchasing System (CAPS), the Countywide Timekeeping and Personnel/Payroll System (CWTAPPS), the Countywide Payroll System (CWPAY), and County Fiscal Manual policy. To accommodate the business requirements generated in this environment, the baseline FAS software required 64 County site-specific modifications. For instance, the FAS software had to be modified to include edits specific to CAPS and CWTAPPS, to conform to the CAPS classification structure, and to provide billing functionality that existed in the prior system. Site-specific modifications completed to comply with the FAS Agreement were, as required under the Agreement, provided by the Contractor at no additional cost.

The proposed Amendment expands maintenance and support services to include all of the County site-specific modifications at an annual cost of \$234,500 (in addition to the \$108,000 per year currently being paid). Future site modifications developed by or approved by the

Contractor would also be included. The expanded maintenance support services will provide adaptation of the modifications to the software for each software release, allow the use of in-house programming staff for alternative purposes, provide a large knowledge and resource base for FAS programming, and significantly reduce Public Works' vulnerability to in-house staff turnover. As an accommodation to the County, KPMG Consulting has been providing this extended maintenance service at no cost since January 2001 and has further agreed to continue the service at no cost until July 1, 2003. This will result in a savings of approximately \$590,000. In addition, the Amendment would provide an option for Public Works to obtain, at no additional cost, new FAS successor software products offered by the vendor.

The proposed Amendment to the FAS Agreement also would allow as-needed optional support services. The optional support services would be at fixed rates established in the original 1997 FAS Agreement and would not exceed in total \$900,000 from July 1, 2002, to December 31, 2009, and would not exceed \$300,000 annually. The strategy with FAS from the outset has been to minimize modifications to the baseline software and to attempt to change processes and procedures to work with the software. In using the baseline software for nearly three years, Public Works has identified functionality that if added to FAS would increase efficiency, provide greater control, or provide improved customer service. Examples are various interface improvements, automation of selected labor/payroll processes, the addition of standard labor costing, modifications to system processes to mirror those in CAPS, and improvements to system billing and collections processes. There could also be changes to the software needed in order to comply with possible Countywide Acquisition Management Information System (CAMIS), Los Angeles County Administrative System (LACAS), and new Position Status Report directives.

Subcontracting Agreement and Delegation of Authority to Assign - In February 2002, KPMG Consulting informed Public Works that it intended to sell its Government Solutions Center, which maintains the FAS software, to Tier Technologies, Inc. The sale was consummated in March 2002.

Tier is a global consulting firm that provides business and information technology consulting, systems design and integration, transaction processing, business process outsourcing, and business process reengineering for its clients primarily in the state and local government, healthcare, insurance, and utilities markets. Clients are located in 40 states, Australia, and the United Kingdom. The company is listed on the NASDAQ exchange and as of 2001 had over 900 employees. For 2001, about 62 percent of Tier's \$116 million in revenues was derived from sales to government agencies. Tier views KPMG Consulting's software product

as a broadening of their current product mix. Public Works is optimistic that Tier's acquisition of KPMG's Government Solutions Center will be beneficial to the County, as Tier appears committed to providing additional funding for software development. Also, most of KPMG Consulting's Government Solutions Center staff have already transitioned to Tier, however, KPMG Consulting has retained sufficient staff (delayed transfer to Tier) to ensure that their FAS obligations are met.

Nevertheless, Public Works does not recommend immediately assigning the FAS Agreement to Tier. Instead, Public Works recommends that KPMG Consulting subcontract with Tier. Consideration of the assignment to Tier would be deferred until one year after final acceptance of the system. This will afford the County an additional layer of protection by allowing Public Works to evaluate fully Tier's ability to fulfill the obligations of the FAS Agreement.

The FAS Agreement requires Board approval of a delegation of duties or assignments. Although the Director has delegated authority to approve subcontracts, Public Works seeks the Board's consent of the Subcontracting Agreement between KPMG Consulting and Tier, because the scope of the subcontracting is essentially a delegation of duties.

Public Works also seeks the delegation of authority to the Director of Public Works to consent to the assignment of the FAS Agreement to Tier one year after final acceptance of the system. The Director of Public Works would only consent to the assignment if he is satisfied with the performance of Tier and believes that Tier is capable, from a technical, service, and financial perspective, of fulfilling all of the obligations under the FAS Agreement through its term. Prior to consenting to the assignment, the Director of Public Works will provide a report to the Board addressing the status of the project and Tier's performance. Also, as stated above, the assignment will obligate both KPMG Peat Marwick and KPMG Consulting to remain jointly and severally liable for the acts of Tier or its successors.

The subcontracting and possible future assignment to Tier will be subject to the Continuing Liability and Consent Agreement. As mentioned above, the agreement requires that KPMG Peat Marwick and KPMG Consulting remain jointly and severally liable for the success of the FAS.

### **Implementation of Strategic Plan Goals**

This action furthers the County's Strategic Plan goals of service excellence, fiscal responsibility, and organizational effectiveness. Modifications to FAS will result in better

information for decision-making purposes and increased efficiencies in transaction processing. KPMG Consulting and Tier have the expertise and familiarity with FAS to perform the work and provide needed maintenance services, which will allow services to be provided in an effective and responsive manner.

### **FISCAL IMPACT/FINANCING**

There is no direct fiscal impact to the consent of the assignment to KPMG Consulting or the subcontracting and possible future assignment to Tier. The cost of the amended FAS Agreement to provide expanded maintenance services and as-needed optional support services is for an amount not to exceed \$2,424,250 for the period July 1, 2002, through December 31, 2009. No net County cost will be incurred, and we do not anticipate any increase in our Department overhead rates to our General Fund Department clients as a result of this action.

Financing for the amended FAS Agreement will be available in each fiscal year beginning in the 2002-03 Fiscal Year from the Public Works' Internal Service Fund. The amount associated with the maintenance cost of the amended FAS Agreement will be encumbered in an annual amount each fiscal year for the term of the Agreement. The amount associated with the as-needed optional support will be encumbered as-needed throughout the term of the Agreement and will not exceed \$300,000 for any fiscal year.

### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

The assignment to KPMG Consulting, the proposed subcontracting and possible future assignment to Tier, and the proposed amended FAS Agreement have been reviewed from a legal standpoint by County Counsel and outside counsel specializing in technology/software contracts and approved as to form. The documents have also been properly executed by KPMG Peat Marwick, KPMG Consulting, and Tier. The Chief Information Officer has also reviewed this request and concurs with the recommendation.

### **CONTRACTING PROCESS**

The approval of the assignment to KPMG Consulting, the Continuing Liability and Consent Agreement, the subcontracting and possible future assignment to Tier, and the amended FAS Agreement are related to the existing FAS Agreement. Therefore, a competitive bid process

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and posting on the County Office of Small Business website were not required. Public Works has evaluated and determined that the Living Wage Program (County Code Chapter 2.201) does not apply to this Board item.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

The consent of the assignment to KPMG Consulting, the Continuing Liability and Consent Agreement, the subcontracting and possible future assignment to Tier, and the amended FAS Agreement are required to provide adequate support to Public Works' FAS and thereby to meet ongoing business needs, including those identified under Purpose/Justification above.

**CONCLUSION**

The Amendment to the FAS Agreement and the Continuing Liability and Consent Agreement are enclosed in triplicate. Please have the Chairman sign all six documents. Please retain for your records one of each of the agreements and return the others to the Department of Public Works. The Department of Public Works will retain for its records one set of the agreements and provide the other set to the vendor. One approved copy of this letter is also requested.

Respectfully submitted,

Reviewed by:

JAMES A. NOYES  
Director of Public Works

JON W. FULLINWIDER  
Chief Information Officer

DD:tao  
FASAGREEMENTSUBCONTRACT2

Enc. (12)

cc: Chief Administrative Office  
County Counsel  
Chief Information Office